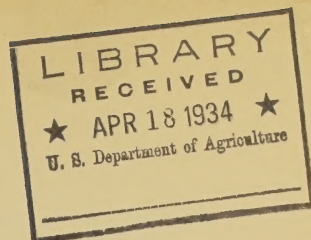


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UNITED STATES DEPARTMENT OF AGRICULTURE  
Agricultural Adjustment Administration

THE JUTE TAX AND  
ITS COST TO FARMERS OF THE PACIFIC NORTHWEST

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Washington, D. C.  
March 24, 1934



THE JUTE TAX AND ITS COST TO THE  
FARMERS OF THE PACIFIC NORTHWEST

The processing taxes on jute fabric and jute yarn are imposed in accordance with the provisions of Section 15 (d) of the Agricultural Adjustment Act. This section of the Act requires the Secretary of Agriculture to ascertain, from time to time, whether the payment of the processing tax upon any basic agricultural commodity is causing, or will cause, to the processors thereof disadvantages in competition from competing commodities by reason of excessive shifts in consumption between such commodities or products thereof. If the Secretary finds, after investigation and due notice and opportunity for hearing to interested parties, that such disadvantages exist or will exist, he must proclaim this finding and specify in the proclamation the competing commodity and the compensating rate of tax on the processing of the competing commodity necessary to prevent such disadvantages in competition. Thereafter there is levied, assessed and collected, upon the first domestic processing of the competing commodity, a tax to be paid by the processor, at the rate specified in the Secretary's proclamation. In no case may the tax imposed upon the competing commodity exceed that imposed per equivalent unit upon the basic agricultural commodity.

Processing Tax on Cotton

On July 14, 1933, the Secretary of Agriculture proclaimed that rental and benefit payments were to be made with respect to cotton, a basic agricultural commodity. In accordance with the Agricultural Adjustment Act, and in accordance with Regulations promulgated by the Secretary of Agriculture with the approval of the President, a tax became effective at the rate of 4.2 cents per pound on the processing of cotton, as of August 1, 1933, the beginning of the marketing year. This processing tax has been in effect on all cotton consumed in the United States from August 1, 1933, to date.

The Compensatory Tax on Jute

On July 31 and August 1, 1933, public hearings were held under Section 15 (d) of the Act on the competitive situation existing between cotton and other commodities and the effect of the cotton processing tax thereon. On October 2, 3, and 4, 1933, further public hearings were held. The commodities considered at this hearing were cotton and its products on the one hand, and paper, jute, and miscellaneous fibers and their products on the other. At these hearings considerable testimony was introduced by interested parties. (It might also be observed in passing that hearings were held on November 9 and 10, 1933, with respect to competition between cotton and silk, rayon, linen and wool.) In addition, extensive investigations of the competitive situation existing between cotton and jute and the effect of the cotton processing tax thereon were made by the Agricultural Adjustment Administration.

Following the hearings and investigations, the Secretary of Agriculture made certain findings and proclaimed these findings on

December 1, 1933. This Proclamation among other things stated that the "payment of the processing tax upon cotton is causing, and will cause to the processors thereof, disadvantages in competition from jute fabric and jute yarn, by reason of excessive shifts in consumption between such commodities or products thereof". The compensating rate of tax necessary to prevent such disadvantages in competition was specified as "2.9 cents per pound of jute fabric on the first domestic processing of jute fabric into bags" and "2.9 cents per pound of jute yarn on the first domestic processing of jute yarn into twine of a length 275 feet per pound or over, finished weight of twine".

It will be noted from this that, with respect to bags, the competing commodity the processing of which is subject to tax is jute fabric, although obviously the point where competition makes itself manifest is in the broad general field of cotton bags against jute bags. Bag makers' specifications list jute bags and cotton bags for several hundred similar uses. It is recognized that bagging practices vary, but some common examples of similar uses of cotton bags and jute bags are as containers for feed, flour, meal, polished rice, fertilizer and other chemicals, salt, sugar, coffee, and onions. Some important trends have occurred in the use of bags in recent years, and in some instances there are important differences in bag usage within a general field of use. Considering particular uses of cotton bags and jute bags, it is to be noted that there are some commodities for the sacking of which jute bags may predominate; other commodities for the sacking of which cotton bags may predominate; other commodities in which the field will be divided fairly evenly between jute and cotton; other commodities which may be sacked principally in jute in one section of the United States and principally in cotton in another section of the United States. In fact, many of the bags used in the first instance by individuals who buy jute bags only, will subsequently enter the second-hand market and be used to displace cotton bags.

Jute Regulations, Series 1, issued in conjunction with the Secretary's Proclamation of December 1, 1933, defined jute bags to be all bags less than six feet in length and less than three feet in width made from jute fabric. Considering the discussion above of the fields of use of cotton bags and jute bags, the difficulty of differentiation between jute bags, according to whether a particular consumer intends to use them to replace cotton bags, will be readily apparent. The definition of "bags" in the Jute Regulations does, however, recognize that the factual situation did not show competition within the terms of the Act between cotton and jute in bagging above a certain size. As a result, the jute processing tax does not affect jute bags used for sacking wool. It was also recognized that any attempt to differentiate between jute bags falling within the definition of bags in Jute Regulations, Series 1, a definition which covers the vast majority of jute bags made, to suit the situation respecting a particular individual, or a particular locality, would make the tax ineffective and hence be a failure to comply with the requirement of Section 15 (d) of the Act, that the rate of tax on the processing of the competing commodity be "the compensating rate of tax necessary to prevent such disadvantages in competition." The fields of use for jute and cotton bags overlap and in view of the evidence that users were shifting and would continue to shift from cotton bags to

jute bags because of the cotton processing tax, the Secretary proclaimed his finding of December 1, 1933, in accordance with which the tax is now in effect. It might be added that by the Proclamation on the same date, certain findings were made by the Secretary of Agriculture with respect to paper, a commodity in competition with cotton, the processing of which is now subject to tax.

At this point it may be well to observe a few general facts concerning jute. This fiber is obtained from the inner bark of the jute plant, which grows to a height of 7 to 12 feet. Almost the entire commercial output of jute is grown in India. Imports of jute and jute products into the United States account for around 20 to 25 percent of the Indian jute crop. Jute is sometimes referred to as "the world's cheapest fiber". For certain uses jute appears to be particularly well adapted. In other fields of use it competes with other fibers on a price basis. Because of its low price it has completely usurped certain markets. In other instances consumers shift from jute products to cotton products when the price of cotton falls relatively, and they shift from cotton products to jute products when the price of cotton rises relatively to the price of jute. The compensatory tax on jute does not aim to offset competitive price advantages that jute may have for other reasons, but only to equalize the competitive situation between cotton and jute with respect to processing taxes.

#### The Use of Funds Derived from Processing Taxes

The fact that the jute tax was established to compensate for the processing tax on cotton has apparently given rise to the mistaken belief that it was established in order to obtain funds to be used for rental and benefit payments to cotton growers. The foregoing explanation should have eliminated this misunderstanding, but an examination of the appropriation provisions of the Agricultural Adjustment Act may further clarify this point.

Funds derived from compensatory processing taxes are treated in the same manner as revenues from other taxes imposed under the Agricultural Adjustment Act. In Section 12 (b) of the Act the proceeds derived from all taxes imposed under Part 2 of Title 1, (which includes processing taxes on basic agricultural commodities and the compensatory processing taxes on competing commodities) are appropriated to be available to the Secretary of Agriculture for expansion of markets and removal of surplus agricultural products and for administrative expenses, rental and benefit payments, and refunds on taxes. The funds derived from the jute tax, therefore, may be used for such purposes in any of the programs of the Agricultural Adjustment Administration. It should be clear, therefore, that the jute tax was not established for the purpose of acquiring funds to be paid to cotton growers.

#### Tax Burden

Processing taxes on competing commodities, like those on basic agricultural commodities, may fall on farmers as well as on other classes of our population. It is general knowledge that the South is normally

a deficit food producing section. Figure 1 shows surplus and deficit wheat producing areas by states, as they were a few years ago. To the extent that the Cotton Belt consumes more wheat than it produces, therefore, the burden of the wheat processing tax borne by that section will be disproportionately large in comparison with the amount of wheat produced in that section. The cotton tax falls on consumers of cotton goods throughout the country. Many farmers who produce no cotton bear a part of the cotton processing tax. It would be impossible to determine accurately to what extent the processing taxes on basic agricultural commodities and on competing commodities as a whole are borne by farmers and to what extent they are borne by other elements of the population. If the burden of these taxes were to be estimated geographically, or by localities, it would be difficult to obtain a more generally satisfactory basis for making the estimate than the population figures.

No doubt, in many instances, the jute tax falls on farmers. However, it is not easy to determine what individuals finally bear the burden of the tax even in the more simple cases. It is recognized that the jute tax has increased the price of new bags. When the farmer buys new bags, therefore, he pays a higher price for them because of the tax. On the other hand, the higher price of new bags has increased the value of old bags. When the farmer sells his products in bags an increased allowance can be given him for the second-hand value of the bags.

The price of jute bags has also risen for reasons other than the processing tax. The price of 10 1/2 ounce jute burlap rose 63 percent from January to July 1933, from 3.78 cents per square yard to 6.16 cents per square yard, and was 5.84 cents per square yard in January 1934. The price of 8 ounce burlap rose 70 percent from January to July 1933, or from 2.93 cents per square yard to 4.99 cents per square yard, and was 4.67 cents per square yard in January 1934. The prices of these burlaps fell from July to October 1933, then rose from October 1933 to January 1934 as cotton prices did, although no processing tax attaches to burlap, but only to the processing of burlap (jute fabric) into bags.

On most jute bags the tax amounts to 1.5 cents to 2.0 cents each, but on the large-sized, heavy bags such as those used for wheat in the Pacific Northwest, the tax amounts to over 2 cents each. At present prices at wholesale, the tax averages about 15 to 20 percent of the selling price.

#### Proposals Respecting the Jute Tax

1. The proposal has been made that the jute tax be removed because in many instances it falls on farmers. Undoubtedly, the lack of information about this tax and the basis for it, and the failure to realize that an injustice would be done if a tax were continued on cotton and one were not placed on jute, gave rise to this proposal. The fact that the jute tax may fall on farmers in certain instances does not differentiate it from the other processing taxes. The cotton grower knows that farmers who buy cotton articles pay a part of

the cotton tax; the wheat grower knows that farmers who buy flour pay a part of the wheat tax; and the tobacco grower knows that farmers who buy tobacco pay a part of the tobacco tax. Farmers recognize that they too must pay a part of the cost of improving the economic position of American agriculture. So long as the benefits exceed the costs farmers will have no complaint.

There is one difference between the processing taxes on basic agricultural commodities and the jute tax, however, that may have contributed to the proposal that the tax on jute bags be abolished. Jute is not produced in the United States, whereas the products declared to be "basic agricultural commodities" in the Agricultural Adjustment Act are produced in the United States. For this reason it may have appeared to some that the compensatory tax on jute is not necessary. Probably the foregoing discussion has covered this point adequately. However, those not acquainted with the competition between cotton and jute may be able to visualize the problem better if they conceive the position of the dairy farmer and the butter manufacturer if, in a situation in which butter and oleomargarine were highly competitive, the latter product were to gain a competitive advantage because of a tax that applied only to the former product. Clearly, it cannot be maintained that jute should remain without a compensatory tax, while a processing tax attaches to cotton in competing uses.

2. It has been proposed that the jute tax be refunded to individuals who purchase jute bags. Although this proposal was made in light of a special situation, such practice would in effect eliminate the tax.

3. A proposal that is far reaching in its implications is that the taxes farmers pay on jute bags be used in carrying out an agricultural program in the particular region or state in which these farmers reside.

This proposal needs examination from several points of view. First, the taxes farmers in a particular area pay on jute bags would be wholly inadequate for carrying out even a local adjustment program. Second, action of this nature would constitute a new basis for determining expenditures of funds of the Agricultural Adjustment Administration that might seriously embarrass or even cripple a program for agricultural relief.

If funds from the jute tax were to be apportioned by localities on the basis of local payments of these taxes, there would appear to be little argument against apportioning funds from all taxes on a similar basis. As noted above, population figures probably give as good an index to total tax payments by each state as any other single factor. But obviously population and the need for agricultural relief do not coincide. According to figures from the 1930 census, New England, with 6.6 percent of the population and approximately one percent of the land in harvested crops of the United States, produces less than 0.1 percent of the wheat, approximately 0.1 percent of the corn, and 2.6 percent of the tobacco; and has 0.4 percent of the number of hogs and 3.3 percent of the number

of dairy cows in the country. The Middle Atlantic States with 21.4 percent of the population have four percent of the harvested crop land and produce 2.8 percent of the wheat, 2.1 percent of the corn, and 3.6 percent of the tobacco. This section has 1.8 percent of the hogs and 9.9 percent of the dairy cows of the country. If expenditures were made locally on a population basis, these two geographical divisions would receive 28 percent of the funds available for agricultural relief, although they have but 5 percent of the country's land in harvested crops. On the other hand, the South Atlantic States with 12.9 percent of the population of the country and 7.7 percent of the harvested crop land of the country, produced 3.2 percent of the wheat, 20.8 percent of the cotton, 7.7 percent of the corn, and 53 percent of the tobacco; and have 7.8 percent of the hogs and 7.3 percent of the dairy cows of the country. The situation is similar in many respects in the West Central Division. The West South-Central States have 9.9 percent of the country's population, 15.8 percent of the country's land in harvested crops, 11.9 percent of the wheat production, 48.9 percent of the cotton production, 7.3 percent of the corn production, 7.4 percent of the hogs, and 10.9 percent of the dairy cows of the country. The West North-Central Division has 10.8 percent of the population and 38.6 percent of the harvested land in crops of the United States. Its production of wheat represents 46.8 percent, its production of cotton 1.5 percent, its production of corn 47.4 percent, its production of tobacco 0.4 percent, its hogs 49.1 percent, and its dairy cows 27.7 percent of the total of the country. In some respects the situation is even more pronounced in the Mountain States which have 3 percent of the population, 6.5 percent of the land in harvested crops, 12.7 percent of the wheat production, 1.6 percent of the cotton production, 1.2 percent of the corn production, 2.1 percent of the hogs and 3.9 percent of the dairy cows of the country. Among these states, Idaho and Montana with 0.4 percent each, of the population of the country, produce 3.6 percent and 5.1 percent respectively of the country's wheat. The Pacific States with 6.7 percent of the population and 3.6 percent of the land in harvested crops produce 9.4 percent of the wheat, 1.8 percent of the cotton, 0.1 percent of the corn and have 1.9 percent of the hogs and 5 percent of the dairy cows of the country. If the agricultural program is to be successful, the expenditures under it must be made with a view to benefiting agriculture and not necessarily with a view to returning money to the localities from which revenues are obtained.

The proposal that tax payments for jute bags be used for the benefit of the localities from which they are derived came from the Pacific Northwest and apparently reflects a feeling that wheat growers in that section are not being given adequate consideration and that the benefits they are receiving from the Agricultural Adjustment program are not equal to those being received by farmers in other sections of the country. In this connection it should be noted, first, that the Pacific Northwest is being permitted to take in the wheat acreage adjustment program on an equal basis with other sections of the country. When the payments under this program are converted into the bushels of wheat that farmers are to refrain from producing it is found that they amount approximately to parity price. In comparison, in the 1934 cotton acreage reduction program guaranteed rental and benefit payments amount to 4.5 cents per pound for the cotton

that farmers are to refrain from producing, whereas parity price is now approximately 14.6 cents per pound and recently the market price has been approximately 12 cents per pound. Second, the Pacific Northwest, since it is now the only important wheat exporting section of the country is receiving the benefit of the loan of \$10,000,000 made by the Reconstruction Finance Corporation to the Chinese Government for the purchase of wheat in this country. Although the Agricultural Adjustment Administration is not a party to this loan, the loan cannot be overlooked in any review of the Government's activities to help agriculture in the Pacific Northwest. Third, the Pacific Northwest is being very greatly benefited by the program of the North Pacific Emergency Export Association.

Early in the fall it was recognized that wheat prices at Chicago would probably continue well above an export basis throughout the year. In the Pacific Northwest, however, there was a large exportable surplus. Under the conditions growers in that section would have been forced to sell their wheat for export at very low prices. In addition, the surplus wheat of that section would have held down prices to growers in other sections of the West and the shipments of this wheat to eastern markets would have disrupted prices throughout the country. The 1933 wheat crop is estimated at 46,249,000 bushels in Washington, 17,492,000 bushels in Oregon and 19,365,000 bushels in Idaho. These three states with 2.5 percent of the population produced 15.8 percent of the 1933 United States wheat crop. Incidentally, the 1933 wheat crop in California amounted to 12,118,000 bushels.

Since wheat growers in the Pacific Northwest had not been able to reduce their crop for harvest in 1933, the Department accepted the situation as an emergency and entered into a marketing agreement for the disposal of the North Pacific wheat surplus. Under this agreement wheat prices in the Pacific Northwest are being maintained at their normal relationship with Chicago prices and wheat is being sold for export at a loss. This loss is being paid by the Secretary of Agriculture out of funds available for carrying out the purposes of the Agricultural Adjustment Act. Export sales under this program began October 20, 1933. The effect of this program on prices in the Pacific Northwest can be observed most easily by a specific example. On March 1 the price of Western White wheat at Portland was 73 cents per bushel basis No. 1 bulk. On that day the same grade of wheat was sold for export at 48.5 cents per bushel. The difference of 24.5 cents per bushel represents the extent to which wheat prices are being held above the world level as a result of the marketing agreement. It shows also the amount of the loss incurred by the Secretary of Agriculture on the operation. For the period to date these losses have averaged about 22 cents per bushel. It is safe to say that the price of wheat in the Pacific Northwest would have averaged lower by that amount except for the operations of the North Pacific Emergency Export Association. It is difficult to determine exactly how large the total losses will be from the present program but probably they will be between seven and nine million dollars. The benefits of the program to wheat growers are greater, however, than the amount of these losses since the program has raised prices growers have received for wheat for domestic

consumption, as well as for wheat to be exported. The program is probably as effective as any that could be devised for giving immediate relief to the wheat growers in the Pacific Northwest.

In comparison with this special treatment amounting to 24.5 cents per bushel, to say nothing of the general wheat program and the Chinese loan, the burden of the jute processing tax to the Pacific Northwest is small. As noted above, bags used for wheat in that section are comparatively heavy and the tax on them amounts to about 2.2 cents per bag. This is equal to nearly 1 cent per bushel for the wheat shipped in new jute bags.

Trade sources believed to be reliable estimate that in 1932 and 1933 the purchases of new jute bags for wheat, manufactured by commercial agencies, averaged 10,000,000 bags annually in Washington, 6,000,000 in Idaho and 4,000,000 in Oregon. Purchases of new jute bags for grain in 1932 are estimated at 13,500,000 in California and 1,500,000 collectively in the three states of Nevada, Arizona and Utah. Purchases in the latter four states are estimated to have been 20 percent less in 1933 than in 1932. In addition it is estimated that sales of new prison made jute bags amounted to 5,500,000 and that about 12,000,000 reconditioned second-hand jute bags were used for grain in these states. Second-hand bags are not subject to the tax, although their market values may be increased because of the tax.

On the basis of the above information it appears that the jute tax would represent a cost of approximately \$440,000 annually to the wheat producers of Washington, Idaho and Oregon, and from \$420,000 to \$450,000 annually to grain growers in the states of California, Nevada, Utah and Arizona. Of course the taxes resulted in no such addition to the cost of bags for the 1933 crop since it was not established until December 1, 1933. The cost to the Agricultural Adjustment Administration of the program under the North Pacific Emergency Export Association will, therefore, be from 16 to 20 times as great as the payments of the jute tax by purchasers of wheat bags in the Pacific Northwest.

If the proposal, that the taxes farmers in the Pacific Northwest pay on jute bags be used in carrying out the wheat program of that section, had no further implications it would be a simple matter for the Agricultural Adjustment Administration to accept it. In fact, the Administration would have only to agree to a bookkeeping operation and observe that in the present program it has already spent many times the amount of money that will be collected on bags going into that particular region. However, in so doing, the Administration would be adopting a basis for making expenditures that would probably make such program as is now being undertaken in that section impossible. To allot funds on any basis other than that of making necessary adjustments in agriculture might bring about the defeat of the whole agricultural adjustment program. It is doubtful if the wheat growers of the Pacific Northwest desire to have a policy adopted which might result in the termination of the activities of the North Pacific Emergency Export Association before the close of the period for which it was established.

If the agricultural adjustment program is to be successful it must be carried out on a broad basis that will improve the agriculture of the country as a whole. The products termed "basic agricultural commodities" in the Agricultural Adjustment Act are wheat, cotton, field corn, hogs, rice, tobacco and milk and its products. It is not to be concluded, however, that there was any intention in the formulation of the Agricultural Adjustment Act, or the program thereunder, to restrict adjustment activities to these commodities or to limit the benefits of the program to the producers of these commodities. Programs are in operation under the Act to deal directly with many agricultural products not listed as basic agricultural commodities. More important, however, it was recognized that, just as agriculture is so closely related to the other occupations of the Nation that its improvement would be of general advantage, so the various elements within agriculture are so inter-related that improvement in a number of major commodities would have a beneficial effect throughout agriculture. This is so well recognized that it would seem unnecessary to discuss the point at length. However, it may be of value to recall a few familiar examples that illustrate the interlocking of agricultural areas.

Figure 2 shows the distribution of Idaho potatoes for the period July 1924 to April 1925. In that period over 2,500 cars were shipped into cotton states of the South and East. To take one specific case that is not important alone, but which illustrates an important general situation, unloads of Idaho potatoes in the city of Atlanta, Georgia, rose from 26 cars in 1924 to 197 cars in 1927, then fell to 5 cars in 1932. In 1933 they increased to 33 cars. It seems reasonable to consider the decline from 1927 to 1932 and the improvement in 1933 in large part a reflection of the depression and recovery in the Southeastern Cotton Belt. Figure 3 shows the distribution of Maine potatoes for the 1924-25 shipping season. In that period over 13 percent of the car lot shipments of Maine potatoes went to states south of the Mason-Dixon line. Figure 1, showing one aspect of the wheat situation, also illustrates the fact that many of our surplus agricultural products of one area find markets in other agricultural areas of the country.

On the supply side it is well known that when the depression of the early 1920's reduced incomes to grain farmers in the North Central States many grain farmers turned to dairying. After 1929, when the incomes of cotton growers were reduced, the Cotton Belt turned generally toward the production of more food and feed crops. This, of course, reduced the market outlets for the products of other agricultural areas. One of the problems that gave dairy producers grave concern was the possibility that a reduction in the cotton acreage might encourage commercial dairying in the South. This problem resolved itself into the question of whether continued low incomes from cotton production would result in a greater or lesser expansion of dairying than a sharp reduction in cotton acreage with proper safeguards against the expansion of production of other crops for sale. If the general economic status of American agriculture can be improved then there is reason to believe that, in response to conditions of comparative advantage in production, our important agricultural areas will specialize in the production of certain products and one area, as the Cotton

Belt, will constitute a market outlet for the products of other areas. If incomes were to remain as low as they were in 1931 and 1932, it is obvious, however, that agriculture would become less specialized, and as emphasis were put on producing for farm needs and local demand, the market outlets of very specialized areas would become further and further restricted. It has been amply demonstrated that prosperity as well as depression for our major groups of farmers become diffused to the general betterment or general disadvantage of all American agriculture. In the expenditure of its funds, the Agricultural Adjustment Administration must concentrate its attention on the benefit that the expenditure will give to agriculture in general.

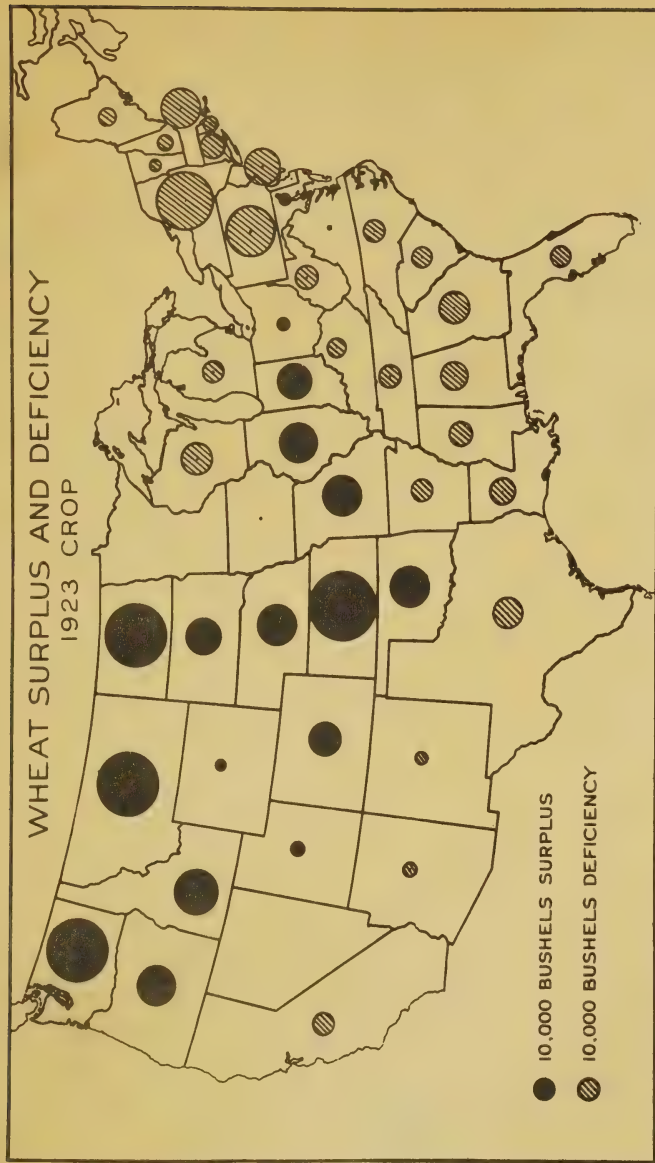
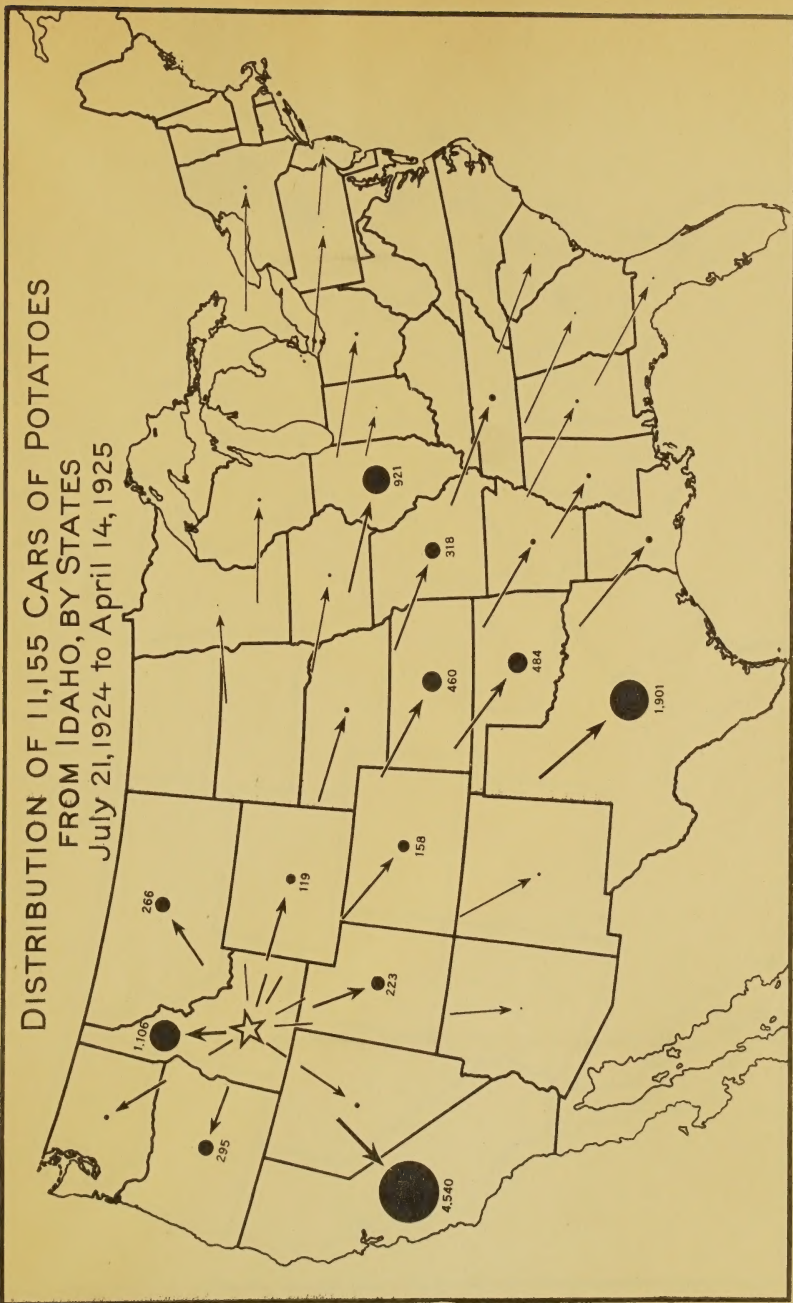


Fig. I.- The South and East generally are deficit wheat producing regions. Only five States east of the Mississippi River produced in 1923 more than they would consume at the pre-war rate of consumption, and the surplus in these States would be far short of supplying the needs of the other States east of the River.



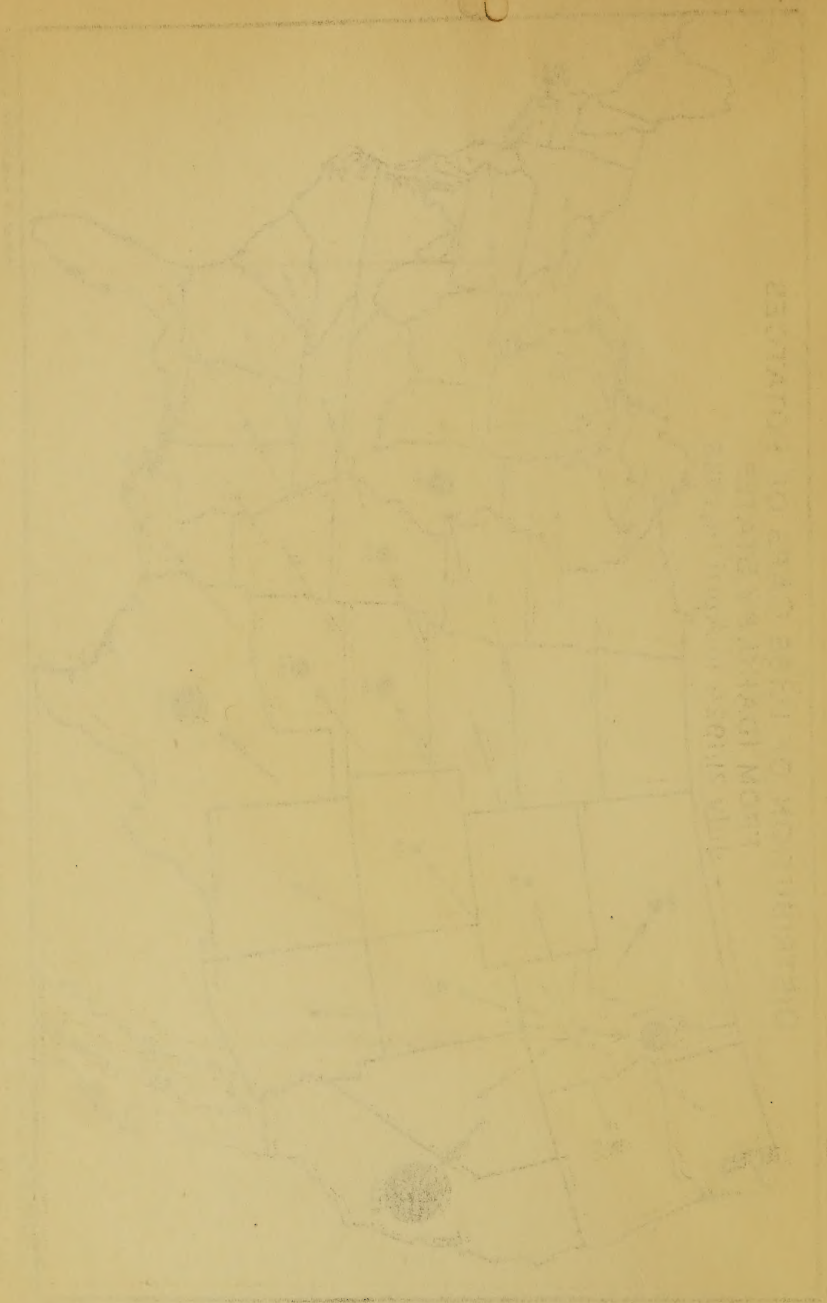
# DISTRIBUTION OF 11,155 CARS OF POTATOES FROM IDAHO, BY STATES July 21, 1924 to April 14, 1925



U. S. DEPARTMENT OF AGRICULTURE

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Fig. 2.- Idaho has the widest distribution of the late-potato areas. The potatoes from this section are in special demand as baking stock



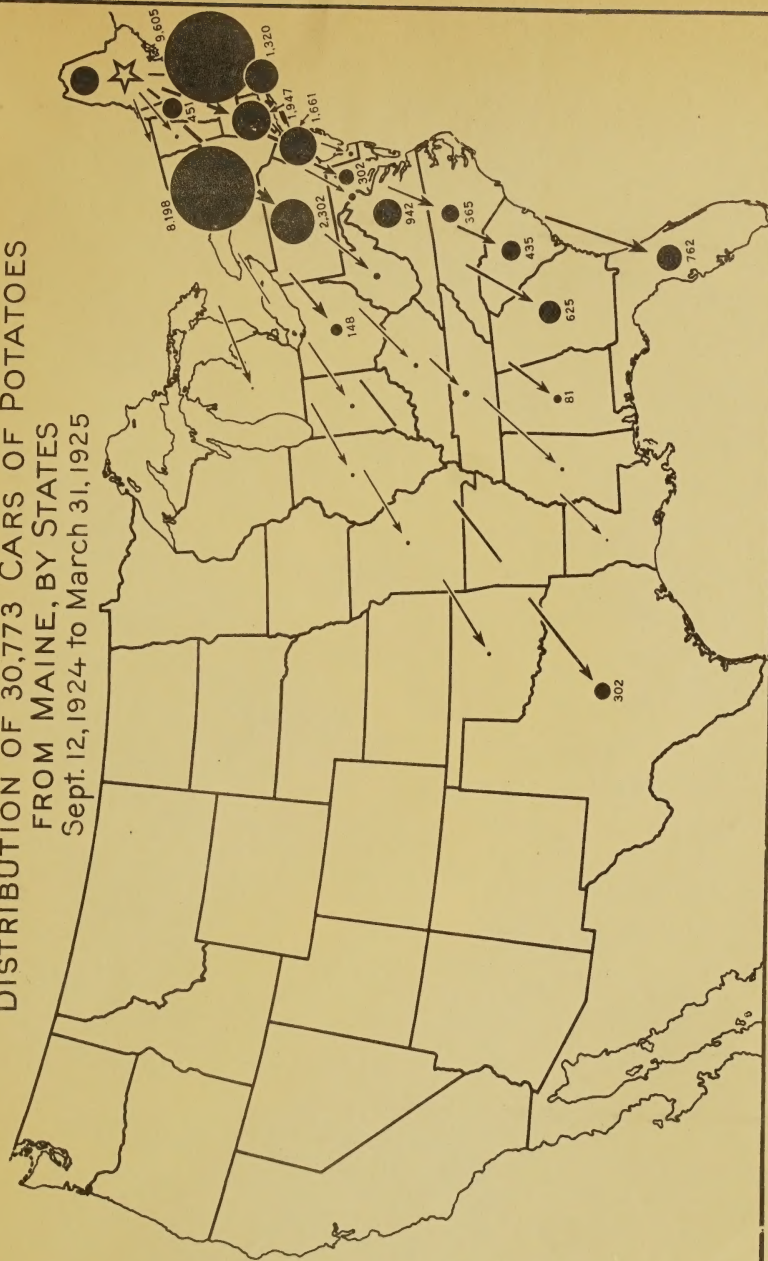
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DEPARTMENT OF AGRICULTURE

OFFICE OF THE CHIEF OF BUREAU

WASHINGTON, D.C.

# DISTRIBUTION OF 30,773 CARS OF POTATOES FROM MAINE, BY STATES Sept. 12, 1924 to March 31, 1925



U. S. DEPARTMENT OF AGRICULTURE

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Fig. 3.- Eighty-five percent of the commercial crop of Maine is unloaded in the New England and Middle Atlantic States. A large part of the Maine shipments to points south and west of Pennsylvania is of seed stock

